

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

JANUARY 29, 2002

IN RE:

**APPLICATION OF UNITED CITIES GAS
COMPANY, A DIVISION OF ATMOS
ENERGY, INC., NASHVILLE GAS
COMPANY, A DIVISION OF PIEDMONT
NATURAL GAS COMPANY, INC. AND
CHATTANOOGA GAS COMPANY FOR
APPROVAL OF DEFERRED
ACCOUNTING**

**DOCKET NO.
01-00802**

ORDER APPROVING DEFERRAL OF UNCOLLECTIBLE ACCOUNTS

This matter came before the Tennessee Regulatory Authority (the "Authority" or "TRA") at a regularly scheduled Authority Conference held on November 6, 2001, upon the *Second Amended and Restated Joint Application for Approval of Treatment of Uncollectible Accounts* filed on October 19, 2001 by United Cities Gas Company ("United Cities" or "UCG"), Nashville Gas Company ("Nashville Gas"), and Chattanooga Gas Company ("Chattanooga Gas") (collectively the "Applicants").

The Application

On September 14, 2001, the Applicants filed a Joint Application for Approval of Deferred Accounting. On September 17, the Applicants filed an Amended and Restated Joint Application for Approval of Deferred Accounting, which superseded the September 14, 2001 filing. On October 19, 2001, the Applicants filed a *Second Amended and Restated Joint Application for Approval of Treatment of Uncollectible Accounts* (referred to herein as the "Application"), and this filing in turn superseded the September 17, 2001 filing. In their

Application, the Applicants request that the Authority approve the deferral of certain costs related to uncollectible accounts.

In support of their request, the Applicants state:

Due to the dramatic increase in the wholesale cost of gas during the 2000-2001 winter heating season, coupled with colder-than-normal weather conditions during the months of November and December of 2000, customers of each of the Applicants experienced gas bills significantly higher than those for the same period the previous winter. In fact, the wholesale gas costs were significantly higher than experienced in the previous ten winter heating seasons. The prospect of excessive disconnects was of great concern to the TRA as expressed at the TRA's conference on February 6, 2001. In response to the TRA's concerns the companies made every effort to extend payment plans and offer budget billing. In doing so, the companies adopted a policy of not conducting "business as usual" including not disconnecting customers in accordance with tariff provisions. The Applicants took measures throughout the previous winter heating season and thereafter to mitigate the effects of the high wholesale prices by providing customers with deferred payment plans that allowed payments to be spread over a number of months rather than paid in full at the time of billing. Under the various plans offered by the Applicants, service was not terminated to the individual customers as long as payment terms agreed to by the customers were being honored. In addition, each of the Applicants has a budget-billing program that is designed to allow customers to spread their bill payments over a one-year period. These programs were especially helpful to customers on fixed incomes and to other customers who had difficulty paying their bills.¹

Nevertheless, according to the *Application*, "each of the companies experienced an unprecedented increase in the level of its bad-debt expenses in Tennessee."² Although it notes that each Applicant's tariff allows the recovery of a certain amount of uncollectible account expenses as part of the cost of service, the *Application* states that "the magnitude of the uncollectible accounts experienced by the Applicants during the 2000-2001 winter heating

¹ *Application*, pp. 3-4.

² *Id.*, p. 4. The *Application* states that "the total net write-offs attributable to uncollectible account expenses incurred by the Applicants are \$1,572,202 for UCG, \$1,505,000 for Nashville Gas and \$1,397,938 for Chattanooga Gas." *Id.*, p. 5.

season and thereafter is far in excess of the amounts currently allowed for uncollectible account expenses in the respective tariffs.”³

The *Application* goes on to state that “[u]nless the Authority grants appropriate relief, the applicants will be required to absorb substantial costs that will not be recovered in the currently allowed rates.”⁴ The *Application* adds that “[t]hese excessive expenses are obviously outside the norm and were not caused by the actions and/or inactions of the Applicants.”⁵ The *Application* states:

The Applicants contend that it would be unfair to require them to absorb these costs when the excessive expenses arose in large part due to the Applicants’ attempts to mitigate the impact on their customers by working out payment plans which were not honored by the customers. Furthermore, each of the Applicants can demonstrate that significant efforts were made to collect the delinquent accounts during the current year, and each of the Applicants will continue to diligently attempt to collect all delinquent accounts, which have been debited to the Unrecovered Purchased Gas Costs-Federal Energy Regulatory Commission Account No. 191 (“FERC Account No. 191”), and to credit the gas portion of the accounts previously written off to FERC Account No. 191 for the benefit of the ratepayers, the approval of which is sought in this Application.⁶

On this basis, the Applicants request that the Authority permit each of them “to defer pursuant to TRA Rule 1220-4-1-.12 and their respective tariffs under the PGA rider the difference between the gas cost portion of the actual net write-offs for each LDCs’ [local distribution company] current fiscal period and the gas cost portion of uncollectible account expenses currently allowed in their base rates.”⁷ The *Application* further states the “gas cost recovery component on all amounts received on previously written off accounts will be credited

³ *Id.*

⁴ *Id.*

⁵ *Id.*

⁶ *Id.*, p. 5.

⁷ *Id.*, p. 6. The *Application* states that the fiscal years for United Cities and Chattanooga Gas end on September 30, 2001 and the fiscal year for Nashville Gas ends on October 31, 2001.

to the deferred gas accounts for the benefit of the ratepayers through December 31, 2002.”⁸ The *Application* states that the gas recovery component on collections will be calculated using the same percentage as that used in determining the amount of the uncollectible deferral. The *Application* states that the deferred gas accounts will be finally reconciled as of December 31, 2002 to reflect the net recovery after credits for payments received on the written-off accounts and the respective reconciliations will be included in each Applicant’s first Actual Cost Adjustment audit filing after December 31, 2002.

Findings and Conclusions

At the February 6, 2001 Authority Conference, the Directors of the Authority discussed the issue of customer disconnection due to higher than normal residential gas bills and heard comments on this issue from representatives of the three major public utility gas companies in Tennessee, which are also the three Applicants in this proceeding. Although the Directors recognized that the three companies were not themselves responsible for the unusual increases in wholesale gas costs that occurred late in 2000, the Directors expressed concern that high gas bills might be causing an abnormally large number of residential customers to have gas service disconnected, including customers whose payment history had previously been good. The Directors noted, and the company representatives acknowledged, that each of the three companies had recently disconnected a much higher than normal number of customers for non-payment of the customers’ gas bills. The company representatives described a number of unusual measures each company had taken to alleviate the burden of high gas bills, including extended payment periods, delayed disconnection, and the opportunity to enter into average payment plans at any time. The Directors asked the companies not to treat the situation in

⁸ *Id.*, p. 7.

February 2001 as normal, to take unusual measures to avoid the harsh effects of high bills, and to be compassionate toward their residential customers who were facing unusual circumstances.

The Applicants have responded in a cooperative spirit to the TRA's request that they take steps to alleviate the burden of high gas bills which resulted from the unusual combination of high wholesale gas costs and lower than normal temperatures that occurred during the winter of 2000-2001. Despite their efforts, the Applicants have experienced record levels of bad debt. The Authority finds that it is appropriate under these extraordinary circumstances to allow the Applicants to defer the gas cost portion of their bad debt expense. This measure is consistent with the intent of Authority Rule 1220-4-7-.02, which allows for recovery of gas costs.⁹ If the Authority does not allow recovery of the Applicants' bad debt expenses in this instance, the Applicants' reported earnings, their ability to raise capital at favorable rates, and their current level of service to their customers could be impaired. This measure should not be understood, however, to reflect the ongoing policy of the Authority, but is adopted for this one instance only in response to the extraordinary circumstances surrounding the winter of 2000-2001.


At the November 16, 2001 Authority Conference the Authority unanimously approved the Applicants' request to defer the gas portion of the excess of their bad debt expense for each Applicant's fiscal period ending in 2001 over the gas cost portion of uncollectible account expenses currently allowed in the Applicant's base rates. The Authority directed that this recovery take place through the actual cost adjustment mechanism. The Authority also directed the Applicants to revert to their normal tariff regulations by April 1, 2002, make reasonable efforts to reinstate disconnected customers, and inform the Authority of their respective progress

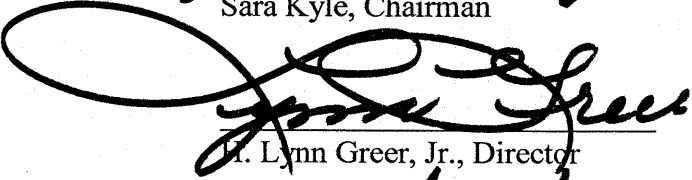
⁹ Authority Rule 1220-4-7-.02(1) states: "These Purchased Gas Adjustment (PGA) Rules are intended to permit the company to recover, in timely fashion, the total cost of gas purchased for delivery to its customers and to assure that the Company does not over-collect or under-collect the Gas Costs from its customers."

granting reinstatement to customers or allowing customers to pay their past- due bills.

IT IS THEREFORE ORDERED THAT:

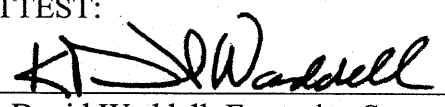
1. The *Second Amended and Restated Joint Application for Approval of Treatment of Uncollectible Accounts* filed by United Cities Gas Company, Nashville Gas Company, and Chattanooga Gas Company is approved.
2. Each of the Applicants is allowed to defer the gas portion of the excess of its bad debt expense for its fiscal period ending in 2001 over the gas cost portion of uncollectible account expenses currently allowed in the Applicant's base rates.
3. Such recovery shall take place through the actual cost adjustment mechanism.
4. Each Applicant shall revert to its normal tariff regulations by April 1, 2002.
5. Each Applicant shall make reasonable efforts to reinstate disconnected customers.
6. Each Applicant shall inform the Authority of its respective progress granting reinstatement to customers or allowing customers to pay back their bills
7. Any party aggrieved with the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within fifteen (15) days from the date of this Order.


Sara Kyle, Chairman


H. Lynn Greer, Jr., Director


Melvin J. Malone, Director

ATTEST:


K. David Waddell, Executive Secretary